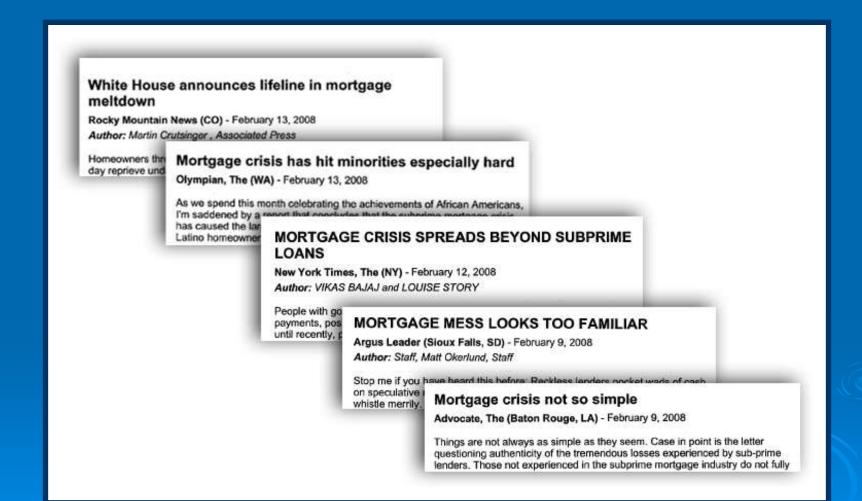
# Avoiding Predatory Lending

Kentucky Department of Financial Institutions

## Department of Financial Institutions

- Charters, licenses and registers various financial institutions, securities firms and professionals
- Conducts examinations and investigations
- Provides educational materials for consumers

# Mortgages in the News



#### Two Factors at Work

- Nontraditional products:
  - Adjustable Rate Mortgage (ARM) Loans
  - Pay Option ARMs
  - Interest Only Loans
- Subprime borrowers:
  - People with less-than-perfect credit

# **Predatory Lending**

#### **DEFINITION**

- Any of a number of fraudulent, deceptive, discriminatory or unfavorable lending practices.
- Many of these practices are illegal, while others are legal but not in the best interest of the borrowers.

# 8 Signs of Predatory Home Loans

- 1. Excessive Fees
- 2. Abusive Prepayment Penalties
- 3. Yield Spread Premiums (Kickbacks to Brokers)
- 4. Loan Flipping

# 8 Signs of Predatory Home Loans

- 5. Unnecessary Products (Insurance)
- 6. Mandatory Arbitration
- 7. Steering and Targeting
- 8. Bait and Switch

# More Things to Watch Out For

- > If it sounds too good to be true, it is.
- Beware of "limited time only" offers.
- Do not give out personal information over telephone or Internet.
- Do not pay for credit counseling or credit repair.
- > Do not deal with an unlicensed lender.
- Do not sign documents you don't understand or that have incorrect information.
- Do not provide false information to qualify.
- Get all promises in writing.

#### **Good Advice**

- > Shop around for the best loan.
- Read the loan agreement and ask questions.
- Get copies of loan documents at the time you sign them.
- Consult with someone you trust.
- The law allows three business days to cancel the loan.

# Other Things to Be Wary Of

- Advance Fee Schemes
- Selling or Buying Assistance
- Reverse Mortgages

# Advance Fee Schemes

- > Advance fee schemes are illegal.
- > Presented as "no-fee" or "no-cost" loans.
- Company requests a payment up front for the "first payment" or "insurance."
- No loan is provided.
- Many times the up front payment cannot be recovered.

# Selling or Buying Assistance

- Assist to Own Programs
- Offer to buy a home and finance it back to you.
- Offer to repair credit, obtain down payment, solve problems with insufficient employment or bank accounts, etc.
- You do not need assistance to buy or sell.
- You should not be charged to repair your credit.

# Reverse Mortgages

- Can be good products for some.
- Make sure you understand how it works.
- If you are 62, live in and own your home, you are eligible.
- It is due when the last surviving borrower dies, sells the home or permanently moves out.
- Loan amounts vary; several payment options.
- Do not draw more money than you need.
- Do not use reverse mortgage for investing.

# Three Types of Reverse Mortgages

- 1. Single Purpose Reverse Mortgages
- 2. Federally Insured Reverse Mortgages
- 3. Proprietary Reverse Mortgages

#### Alternatives to Reverse Mortgages

- 1. Sell your home.
- 2. Use proceeds of home sale to buy a smaller home or rent.
- Invest the remainder of the proceeds.

- Beware of someone pushing a reverse mortgage who tells you what to do with the proceeds.
- Understand the terms.

# Reverse Mortgage Contacts

- AARP Foundation www.aarp.org/revmort/list
- U.S. Department of Housing and Urban Development (HUD) www.hud/gov/offices/hsg/sfh/hecm/rmtopten.cfm
- Federal Trade Commission Consumer Response Center
  - www.ftc.gov/bcp/menus/consumer/credit.shtm



# Call us to check out the background of your loan officer or to file a complaint: KY Department of Financial Institutions 800-223-2579 www.kfi.ky.gov